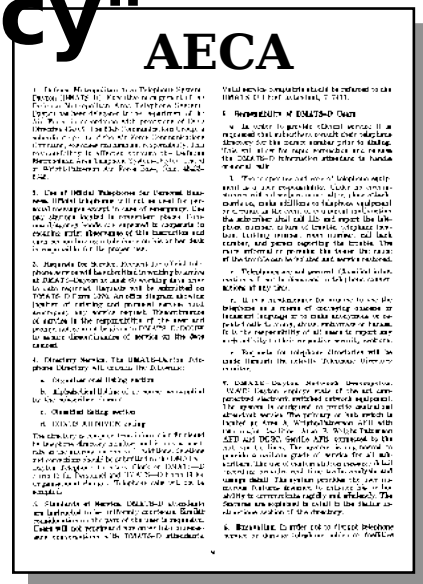


FMS Pricing Concepts

- "General USG pricing policy"
 - Fair
 - Understandable
 - Recover total cost
- AECA - statutory pricing requirements
- Uniform DoD pricing procedures



FMS Pricing Concepts

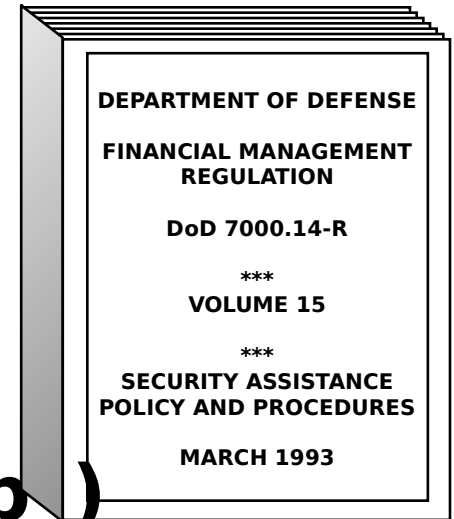
- **SECTION 21** Sales from stock
- **SECTION 22** Sales from procurement

AECA

[illegible]

Uniform DOD Pricing Procedures

- **Price quotations**
 - Estimates only..as a rule
 - Subject to future adjustment
- **Single selling price ("roll-up")**
- **Letter of Offer and Acceptance (LOA)**
- **Add-on percentages normally not shown**

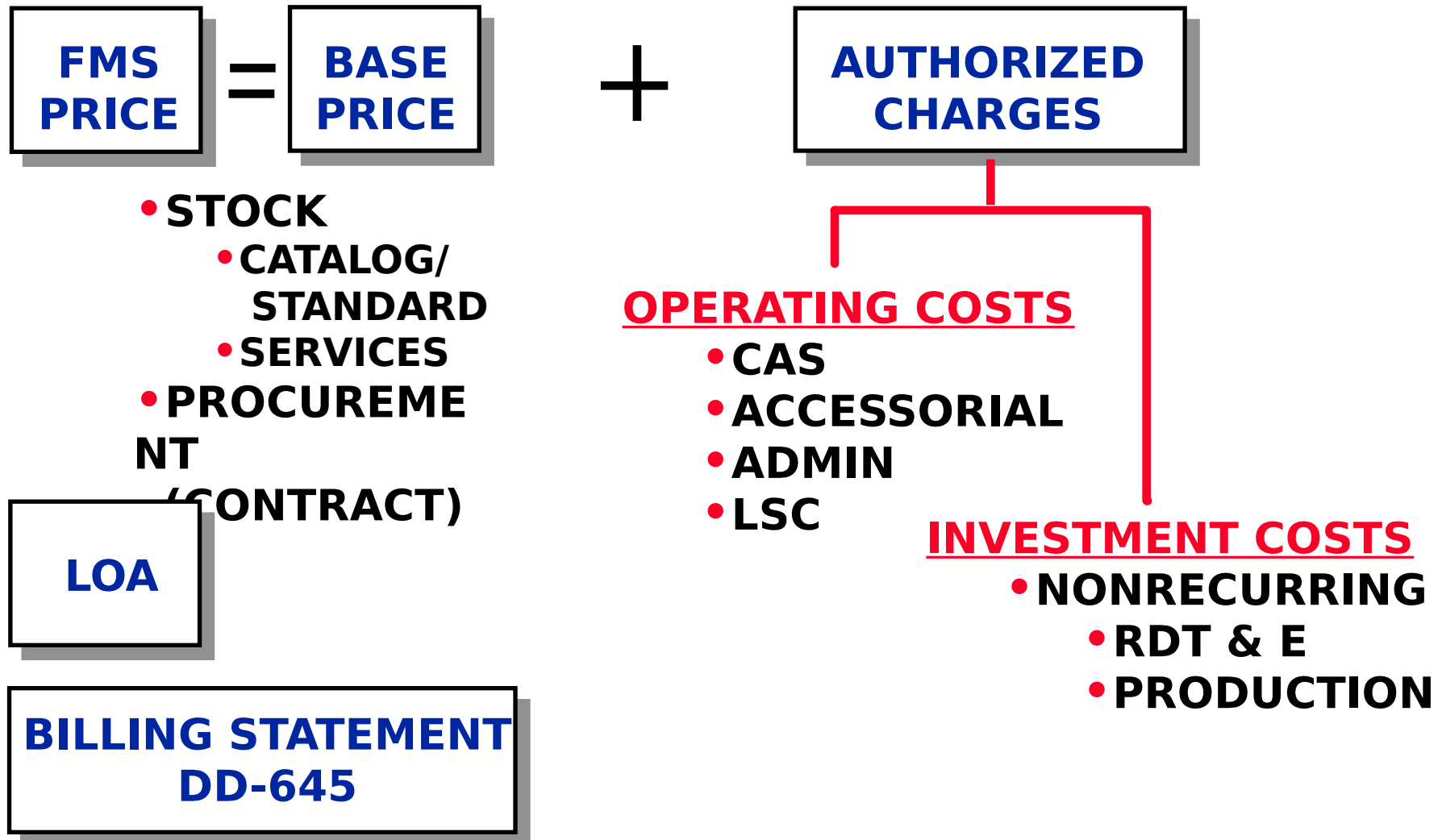


Recovery of Costs

The FMS program must be managed at no cost to the USG (with certain exceptions specifically covered by law)

[\$130104.A.1, SAMM]

FMS Price Formula



Pricing Acquisitions for FMS

- **Cost of doing business***
 - **Selling expenses**
 - Maintaining international sales/services
 - Sales commissions/fees
 - Sales promotions, demonstrations, & related travel
 - Configuration studies & related technical services
 - **Product support and post delivery service**
 - Operations and training
 - Technical field services
 - **Offset costs**
 - **Costs that are subject to advance understanding**

*Change in FY96 for wholly FMF grant funded acquisition

Factors to Be Considered in Pricing an Item From New Procurement

- **Prime contract cost**
- **GFM / inventory**
- **GFM / contractor**
- **DoD funded services**
- **Inflation**
- **Contract administration services (CAS)**
- **Nonrecurring costs (NRC)**
- **Precious metals**

FMS Non-Recurring Cost (NRC) Waivers

- **DoD must charge FMS customer a pro-rata share of NRC of R&D and Production for MDE** [§21(e)(1)(B), AECA]
 - Similar *policy* requirement for DCS/FMS non-MDE was dropped in 1992
- **In FY 78, reduction or waiver of charges is authorized for NATO, Australia, New Zealand, and Japan** [§21(e)(2)(A), AECA]
- **After FY 89, no NRC charges for fully FMFP-funded cases** [§21(e)(1)(B), AECA]
- **After FY 96, conditional waiver is authorized for other FMS cases if determined that:**
 - a sale may be lost if NRC is imposed, or
 - economies of scale would reduce U.S. costs for such items, and savings would offset lost revenue [§21(e)(2)(B), AECA]

Competitive Pricing for FMFP Grant Funded FMS Acquisitions*

- **FMS acquisitions of defense articles financed wholly with grant FMF must be priced on same costing basis as applicable to procurements of like items by DoD for own use**
 - E.g., regarding profit, overhead, IR&D, bid and proposal and other costing elements.
- **Direct Costs associated with meeting additional or unique requirements of foreign customers are allowable.**
 - **Loadings** applicable to such costs will be at same rates as those applicable to the DoD.**
 - **Does not affect FMS administrative charges.**

* Sec. 531A, Foreign Operations, . . . Approp. Act FY 1996, P.L. 104-107 & DSAA Legislative Update, 2/27/96.

**Indirect costs, e.g., mfg. overhead, selling and general and admin. expenses. FAR 31.203

Logistics Support Charge (LSC)

- **Manpower**
- **TDY**
- **ADP**
- **Printing**
- **Communications, utilities**
- **Office equipment/supplies**
- **Rental of office floor space**
- **Processing of RODs**

3.1%

Logistics Support Charge (Cont'd)

- **Production control**
- **Requisition processing**
- **Inventory maintenance**
- **Administration of RODs**
- **Logistics management**

3.1%

Administrative Charges

- **Manpower**
- **TDY**
- **ADP**
- **Printing**
- **Communications, utilities**
- **Office equipment/supplies**
- **Rental of office floor space**
- **SAOs - appropriate share**

2.5%

3%

5%